

**2008 LOS ANGELES-SAN JOSE DEL CABO
EXEMPTION PROCEEDING**

APPLICATION OF VIRGIN AMERICA INC. FOR AN EXEMPTION AND DESIGNATION

Communications with respect to this document should be sent to:

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February 19, 2008

NOTICE: In accordance with Order 2008-2-14, Answers to this application are due by February 26, 2008 and should be served on Virgin America Inc. and all parties on the attached certificate of service.

**2008 LOS ANGELES-SAN JOSE DEL CABO
EXEMPTION PROCEEDING**

APPLICATION OF VIRGIN AMERICA INC. FOR AN EXEMPTION AND DESIGNATION

Virgin America Inc. (“Virgin America”), pursuant to 49 U.S.C. § 40109 and Subpart C of the Department's Rules of Practice (14 C.F.R. Part 302), and the Department’s Instituting Order in this proceeding (Order 2008-2-14), hereby applies for an exemption from 49 U.S.C. § 41101 and designation under the U.S. – Mexico Air Services Agreement authorizing it to provide scheduled foreign air transportation of persons, property, and mail between Los Angeles, California and San Jose del Cabo, Mexico (LAX-SJD).

In support of this application, Virgin America states as follows:

1. Virgin America is a Delaware corporation in good standing with its principal place of business at 555 Airport Boulevard, Suite 200, Burlingame, California. Virgin America is a citizen of the United States as defined in 49 U.S.C. § 40102(a)(15) and has been found fit to provide scheduled interstate air transportation of persons, property, and mail. See Orders 2007-5-11 and 2007-8-17.

2. Virgin America is fit to conduct scheduled foreign air transportation. See Exhibit VX-101.

3. Virgin America seeks an exemption authorizing it to provide scheduled foreign air transportation of persons, property, and mail between Los Angeles and San Jose del Cabo, Mexico. Virgin America currently offers convenient connecting service via Los Angeles from New York (JFK), Washington, D.C. (IAD), San Francisco, and Seattle.

4. The U.S. – Mexico Air Services Agreement provides that three U.S. carriers may be designated to perform scheduled combination foreign air transportation between Los Angeles and San Jose del Cabo. Currently, American Airlines (“American”), Alaska Airlines (“Alaska”), and Frontier Airlines (“Frontier”) hold the available designations, but Frontier has indicated that it will no longer serve Los Angeles – San Jose del Cabo after April 13, 2008. The Department’s instituting order for this proceeding notes that this designation is -

[A] valuable resource obtained in exchange for granting Mexico route opportunities for its airlines to serve the United States. The public interest clearly calls for use of these rights.

Order 2008-2-14 at 2.

5. Virgin America should be awarded the designation now held by Frontier for many of the same reasons that Frontier was selected in 2006. Indeed, with a first class cabin on all of its aircraft, its award-winning coach cabin, state-of-the-art in-flight entertainment, and growing connecting service from the West Coast, Virgin America’s application presents even more compelling reasons than Frontier’s did in 2005. Virgin America, like Frontier, will offer new entrant benefits to Mexico, Los Angeles and the Western portion of the United States as well as new competition to both U.S. and foreign carriers in the market, resulting in “an increase in the competitive benefits to the traveling and shipping public.” Order 2006-9-8 at 15. Virgin

America, like Frontier at the time of its application, “does not currently provide any direct-carrier services to Mexico from either Los Angeles or the West Coast.” Order 2006-6-25 at 19. United and Delta “already provide direct-carrier services to Mexico from Los Angeles or elsewhere on the West Coast,” just as they did when the Department rejected their 2005 applications. Id. The same considerations that led to Frontier’s selection weigh in favor of a similar choice now: superior low-cost, new-entrant competition and market-structure benefits that will only be available to the traveling public if Virgin America is selected. See id.

6. Virgin America accepts and will comply with the Department’s standard terms and conditions imposed on exemption authority for scheduled foreign air transportation.

Virgin America’s Service Proposal

7. Virgin America will begin daily LAX-SJD operations within 90 days of the Department’s Final Order in this proceeding utilizing its new A320 aircraft in a 141 coach/8 first class seat configuration. Virgin America has a strong interest in serving the LAX-SJD market as part of its overall growth strategy and promoting its high-quality, low-fare service – service that has already had a dramatic impact in domestic markets, and will provide more consumer choice and lower fares between LAX and SJD. See Exhibit VX-T-1, Testimony of C. David Cush, President and Chief Executive Officer. Virgin America’s current schedule is designed to maximize local traveler convenience as well as ensure roundtrip on-line connections on flights to San Francisco, Seattle, New York and Washington, D.C. Virgin America’s convenience and goal of outstanding customer service extends right to its passengers seats with high-tech in-flight entertainment systems, world-class cabins, and high-end customer service. See Exhibit VX-T-2, Testimony of Brian Clark, Vice President – Planning and Sales.

8. Virgin America is a unique airline. It is a low-cost carrier, but it provides new aircraft and high-quality service and amenities historically associated with expensive, mainline carrier service. See Exhibit VX-102. Virgin America was deliberately designed and now operates as an airline with a customer-service perspective. See Exhibit VX-103.

9. Virgin America provides point-to-point service in large markets, including San Francisco, Los Angeles, Las Vegas, New York, San Diego and Washington, D.C. Seattle service will begin later this spring. See Exhibit VX-104. Virgin America continues to look for new growth opportunities and is considering service to a number of new markets. See Exhibit VX-105.

10. No other carrier can meet the Department's underlying objective to maximize public benefits as Virgin America's application presents. As Virgin America grows, the consumer benefits of its high-quality, low-fare service will also grow. See Exhibit VX-106. Virgin America will offer almost 110,000 seats annually in the LAX-SJD market, with daily service and no seasonal variation (see Exhibit VX-107) utilizing its brand-new A320s (see Exhibit VX-108). Virgin America believes its in-flight experience surpasses that of any other low-cost carrier. See Exhibits VX-109-113. In designing the airline around a passenger's convenience and traveling experience, Virgin America also provides for a number of booking options, easy Internet and airport check-in, advance seat assignments, and assistance from a friendly and helpful staff. See Exhibit VX-114.

11. Virgin America's LAX-SJD service (see Exhibit VX-115) will immediately benefit almost 13 million residents in the Los Angeles area. See Exhibit VX-116. Virgin America already serves four of Los Angeles' top ten markets, almost 30% of total area domestic

demand. See Exhibit VX-117. Virgin America estimates that its presence will serve to lower fares as much as 45% in the LAX-SJD market. See Exhibits VX-118-119.

12. Virgin America also anticipates a robust freight business in the LAX-SJD market. Virgin America has enjoyed a steady increase in the growth of its freight business since it began operations. See Exhibit VX-120.

13. The Department's Instituting Order states that the "overall competitive environment, including the market structure and the level of competition in the U.S.-Mexico market" will be important factors for choosing a new carrier. As demonstrated by Exhibit VX-121, legacy carriers hold the overwhelming majority of U.S. – Mexico frequencies. Nine carriers serve SJD from gateways in the Western portion of the United States. See Exhibit VX-122. Indeed, because large legacy airlines already have a great deal of U.S. – Mexico authority and designations, this particular market is clearly ripe for new competition. See Exhibit VX-123.

14. Virgin America has already garnered numerous awards, including #1 in quality for first class and #2 in quality for main cabin (Zagat). See Exhibits VX-124-125. Virgin America's early success in these areas is the result of its high-quality product, innovations, people, and service. See Exhibit VX-126.

15. Virgin America is a new entrant and is the only applicant in this proceeding that does not currently operate to, or hold authority to operate to, Mexico.

16. The aircraft necessary for this new service are on firm order for May delivery and will be in Virgin America's fleet by the time Virgin America begins LAX-SJD operations. These are new, leased aircraft and are thus FAR-36 compliant.

17. Virgin America estimates that these new services will consume 1.3 million gallons of fuel per year. Virgin America understands that adequate fuel supplies remain

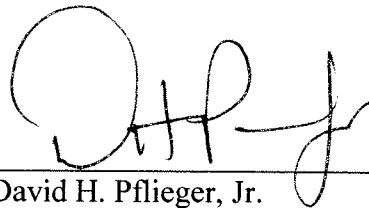
available at San Jose del Cabo, as they were for Frontier's operations. Because Virgin America's proposed services will not result in a near-term increase in fuel consumption of 10 million gallons or more, grant of this application will not constitute a "major regulatory action" within the Energy Policy and Conservation Act of 1975 or Part 313 of the Department's regulations.

18. While Virgin America's application is the best use of the newly-available designation, Virgin America would accept backup authority. If Virgin America is selected for backup authority, it will accept conditions (1) that permit it to implement the authority within the first year should the primary carrier withdraw from the market, or if the primary carrier's authority otherwise becomes dormant; and (2) cause the backup authority to expire at the end of one year should it not be activated.

19. Virgin America is fit, willing, and able to provide the competitive and high-quality scheduled foreign air transportation proposed herein.

WHEREFORE, for the foregoing reasons, Virgin America Inc. respectfully requests that the Department grant it an exemption from 49 U.S.C. § 41101, a designation, and such other additional relief as may be necessary in order to permit Virgin America Inc. to provide scheduled foreign air transportation of persons, property, and mail between Los Angeles and San Jose del Cabo as more fully described above.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'DHP Jr', is written over a horizontal line.

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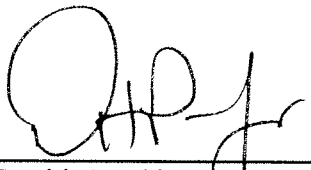
February 19, 2008

CERTIFICATE OF SERVICE

I hereby certify that on this 19th day of February, 2008, a copy of the foregoing Application of Virgin America Inc. was served by electronic mail on the following:

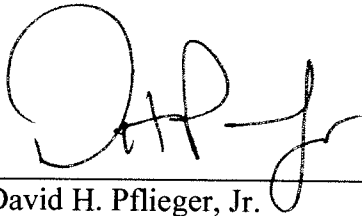
art.thomas@horizonair.com
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David H. Pflieger, Jr.

VERIFICATION

Pursuant to Title 18 United States Code Section 1001, I, David H. Pflieger, Jr., in my individual capacity and as the authorized representative of the applicant, have not in any manner knowingly or willfully falsified, concealed or covered up any material fact or made any false, fictitious or fraudulent statement or knowingly used any documents which contain such statements in connection with the preparation, filing or prosecution of this foreign air carrier permit application. I understand that an individual who is found to have violated the provisions of 18 U.S.C., Section 1001, shall be fined not more than \$10,000 or imprisoned not more than five years, or both.

A handwritten signature in black ink, appearing to read 'DHP Jr', is written over a horizontal line.

Name: David H. Pflieger, Jr.
Date: February 19, 2008
Title: Senior Vice President & General Counsel,
Virgin America Inc.



Virgin America Inc.

Exhibits to Application for LAX-SJD Service

February 19, 2008

**Virgin America Inc.
Direct Testimony and Exhibits
Los Angeles-San Jose del Cabo**

<u>Title</u>	<u>Exhibit Number</u>
Testimony of C. David Cush President and CEO Virgin America Inc.	VX-T-1
Testimony of Brian Clark Vice President – Planning and Sales Virgin America Inc.	VX-T-2
Virgin America is Fit to Provide Scheduled Foreign Air Transportation	VX-101
Virgin America – A Next Generation Airline	VX-102
Virgin America’s Competitive Advantage	VX-103
Virgin America’s Service: Point-to-Point Large Travel Markets	VX-104
Virgin America’s Announced & Potential 5 Year Domestic Service Opportunity	VX-105
Consumer Benefit of Virgin America SJD Service Will Be Immediate And Will Improve As The Airline Grows	VX-106
Virgin America Will Offer Almost 110,000 Seats Annually in LAX-SJD	VX-107
Virgin America Aircraft Are Brand-New, Two-Class, 149-Seat A320s	VX-108
Advantage: A Totally High-End, Different In-Flight Experience	VX-109
Advantage: A Totally High-End, Different In-Flight Experience	VX-110
Advantage: A Totally High-End, Different In-Flight Experience	VX-111

<u>Title</u>	<u>Exhibit Number</u>
Advantage: A Totally High-End, Different In-Flight Experience	VX-112
The Entertainment Junkie's Airline	VX-113
Beautiful Design and Ease-of-Use Across Airline	VX-114
Los Angeles (LAX) – San Jose del Cabo (SJD) Route Map	VX-115
Almost 13 Million Los Angeles Residents Will Have Access To Virgin America's SJD Service	VX-116
Virgin America Already Serves 4 Of The Top 10 Los Angeles Markets	VX-117
Virgin America Would Lower Fares By As Much As 45% In LAX-SJD	VX-118
In Just 6 Months, Virgin America Has Already Made A Dramatic Positive Effect At SFO	VX-119
Virgin America Has a Growing Freight Business	VX-120
There Are Ten U.S. Carriers With Service To <u>Mexico</u> From Western U.S. Gateways	VX-121
There Are Nine U.S. Carriers With Service To <u>SJD</u> From Western U.S. Gateways	VX-122
The Legacy Carriers Have Plenty of U.S. – Mexico Authority	VX-123
Virgin America Awards	VX-124
Virgin America Awards	VX-125
New Virgin America Brand Campaign	VX-126

**Testimony of C. David Cush
President and Chief Executive Officer
Virgin America Inc.**

My name is C. David Cush and I am the President and Chief Executive Officer of Virgin America Inc. On behalf of our airline and our dedicated team, I am pleased to submit this testimony in support of our application for an exemption and designation to provide service in the Los Angeles-San Jose del Cabo market.

This Proceeding

In September 2005, the United States and Mexico took a very significant step towards establishing an open market between Mexico and the United States when they agreed to modify the U.S.-Mexico aviation agreement to permit each country to allow three carriers to operate between the United States and most Mexican cities. The unmistakable purpose of this amendment was to create new opportunities for new, higher quality, low-fare service and, thereby, favorably impact the U.S.-Mexico aviation market structure which had historically been dominated by legacy U.S. carriers benefiting from the competitive protection afforded by the two carrier “cap” imposed by the previous bilateral in many of these markets.

In awarding Frontier the new third designation in the Los Angeles-San Jose del Cabo market rather than Delta, United or Continental, the Department found that Frontier was the best choice to provide the “new entrant competition and market structure benefits” determined by the Department to be “pivotal” in the *Los Angeles-San Jose del Cabo Combination Service Proceeding*. As the Department is aware and is demonstrated in our exhibits, Virgin America offers a very high-quality, low-cost, low-fare service that is already providing formidable competition to its larger, legacy competitors in the United States. Award of this route to Virgin

America will therefore assure that the important competitive and market structure objectives previously determined by the Department to be critical in this market will be met (and, indeed, surpassed) in an effective and timely manner by a California-based airline.

Virgin America Has Grown Dramatically

Virgin America launched its operation in August 2007, providing service between New York and San Francisco, our base of operations. Shortly thereafter we began service in the Los Angeles-New York market, and then expanded to provide San Francisco-Washington, D.C. and Los Angeles-Washington, D.C. service. In early October, we initiated service between San Francisco and Las Vegas and added service between San Diego and San Francisco last week. We will then add Seattle service to San Francisco in mid-March and to Los Angeles in early April. Our plan is to have a total of 22 aircraft operating in seven to eight cities by the middle of August, our first year anniversary.

Our high-quality, innovative service has already had a dramatic impact on the markets we serve. For example, the *San Francisco Examiner* reported last week that San Francisco International Airport passenger traffic and revenue had increased dramatically since Virgin America began service out of SFO last summer. (Virgin America's entry into service at SFO also caused Southwest and JetBlue to start service there – further contributing to the SFO results.) Exhibit VX-119. SFO's passenger base of 33.5 million grew by 6.5% from June to November, a significant increase from the usual 2% annual growth. The airport expects an additional 3.5 million passengers by this summer, a significant 9% growth. The SFO airport spokesman attributed the growth to the options offered by low-cost airlines such as Virgin America. "People are more likely to buy Virgin than United tickets because prices are more competitive," he said. Id.

In terms of service, Virgin America has redefined the U.S. airline market with its breakthrough product innovations and notable guest service. Some of the differentiating aspects of Virgin America's service include brand-new Airbus A-319/320 aircraft, mood-lighting, interactive in-flight entertainment systems, two-prong plugs at passenger seats for laptops and other electronic devices, and the ability to order food or chat with other guests from video-touch TV screens. All of these features are specifically designed to make flying enjoyable once again. Exhibit VX-108-113. We have been gratified that our efforts to significantly improve the quality of service provided to passengers have recently been recognized by several travel guides, including (a) Zagat's 2007 Global Airlines Survey (Virgin America ranked #1 for overall quality in first/business-class for U.S. carriers and #2 for overall quality in the main cabin, an award made after three months of service), (b) TripAdvisor's 2008 Annual Travel Survey (Most Popular Choice for "New Airlines" People Want to Try) and (c) Arthur Frommer's Extra Mile Award (The Best New Travel Values in 2007). Exhibit VX-124. Virgin America has also been recognized locally in the San Francisco Bay Area for Excellence in Business, as the recipient of the 2007 SF Chamber of Commerce's Economic Development Award for generating innovation and job growth. Exhibit VX-124.

Virgin America's Strong Interest in Serving San Jose del Cabo

Virgin America's long-term business goal is to create a new paradigm for airline travel—high-quality, low-cost, low-fare service focused on the needs of passengers and other customers such as cargo shippers. The creative and effective use of the "Virgin" brand name, associated with high-quality, high-value products throughout the world, is an important element of that overall plan. Virgin America is authorized, as the Department knows from the

Virgin America certification proceeding, to use the “Virgin” brand in the holding out of its services to the United States, Mexico, Canada, the Caribbean and Bermuda.

Although the primary focus of Virgin America’s other near-term, route expansion goals is upon service within the United States, Frontier’s recent announcement of its decision to terminate its Los Angeles-San Jose del Cabo service has led Virgin America to accelerate its plans for flights to Mexico. This is particularly the case for service involving San Jose del Cabo, an important destination for travelers located in the Western portion of the United States, where much of Virgin America’s new service is focused.

By granting permission for Virgin America to replace Frontier with its award-winning, innovative service, the Department will ensure more competitive and better service at Los Angeles. As has already happened at San Francisco, where the initiation of service by Virgin America served as the catalyst for greater competition and remarkable traffic growth, Virgin America’s entry into the San Jose del Cabo-Los Angeles market will undoubtedly have a dramatic competitive and structural impact on the Western U.S.-Mexico market generally and the San Jose del Cabo market in particular. More importantly, the introduction of Virgin America’s service in this market will further validate the value of the Department’s decision to increase the number of carriers in most U.S.-Mexico markets from two to three in order to introduce sustainable, high-quality, low-cost competition into the U.S.-Mexico air travel market.

Virgin America is very proud of the impact it has had on the U.S. airline marketplace in the six short months since it began service, and it is eager to introduce its innovative and unique service in the Los Angeles – San Jose del Cabo market this year.

Testimony of Brian Clark
Vice President—Planning and Sales
Virgin America Inc.

My name is Brian Clark, and I am the Vice President of Planning and Sales of Virgin America Inc. On behalf of our airline and dedicated employees, I am pleased to submit this testimony in support of our application for an exemption and designation to provide service in the Los Angeles-San Jose del Cabo market.

I understand that the Department of Transportation focuses on maximizing public benefits when deciding among competing applications in carrier selection cases such as this. In evaluating the public benefits proposed by the various applicants, I further understand that the Department will consider which applicant will be most likely to offer and maintain the best service for the traveling and shipping public. In addition, the Department will consider the effects of each applicant's service proposals on the overall competitive environment, including the market structure and the level of competition in the U.S.-Mexico market. In awarding Frontier this authority in the 2006 *Los Angeles-San Jose del Cabo Combination Service Proceeding*, the Department determined that Frontier's superior new-entrant competition and market structure benefits were "pivotal" in that case, finding that selection of Frontier would do more than the selection of United or Delta to improve the overall level of competition vis-a-vis incumbent carriers in the Los Angeles-Mexico market and the West Coast-Mexico market.

This new proceeding presents the Department with a unique opportunity to replace one low-cost, new-entrant carrier with another that will provide consistent, daily, year-round service. Such a selection will also ensure that the incumbent U.S. carriers, American and Alaska, have to face vibrant competition and offer passengers and shippers more service options.

**Virgin America Will Offer And Maintain The Best
Service For The Traveling and Shipping Public**

Virgin America will provide the best service for the traveling and shipping public in the Los Angeles-San Jose del Cabo market by offering year-round, daily, roundtrip, two-class service with its brand new 149-seat Airbus A320 aircraft. Indeed, the service benefits resulting from Virgin America's proposal will be greater than those being provided by Frontier, which only operates a 132-seat, single-class aircraft in this market.

Virgin America's flights will depart Los Angeles at 11:10 a.m. (local time) and will arrive in San Jose del Cabo at 2:30 p.m. (local time), just in time to check into local hotels. The northbound flights will depart San Jose del Cabo at 3:30 p.m. (local time) and arrive at Los Angeles at 5:00 p.m. (local time). This departure time will thus allow U.S. passengers with enough hours to spend a morning on the beach or golf course and still allow plenty of time to check out and reach the airport.

The daily Los Angeles-San Jose del Cabo flights offered by Virgin America are properly focused on the needs of the local market because the great majority of the traffic in this market is local, and on-line, roundtrip connections will be provided at Los Angeles to Virgin America's San Francisco, Seattle, New York and Washington, D.C. service, Exhibit VX-107 (additional connections will become available as Virgin America continues to grow its service at Los Angeles).

The service Virgin America will provide will be on new Airbus A320 two-class aircraft, configured with 8 first class and 141 main cabin seats. Exhibit VX-108. This service will, in turn, permit Virgin America to offer almost 110,000 seats annually in the LAX-SJD market, the same level of seats proposed by Delta in the last proceeding. Exhibit VX-107. The total fuel

burn for these operations is 1.3 million gallons per year in new fuel-efficient aircraft (Exhibit VX-107), and Virgin America does not anticipate any difficulty in obtaining fuel in either Los Angeles or San Jose del Cabo.

Virgin America anticipates carrying over 87,000 passengers annually on this service, thereby achieving an annual load factor of over 80%. As a new entrant carrier, lower fares have been an important component of Virgin America's overall service and competitive plan, and this proposal reflects that policy. As may be seen in Exhibit VX-118, Virgin America is planning to lower fares by as much as 45 percent from the fare levels presently being offered by American, Alaska, and Frontier – a dramatic impact in a market where fares have already been impacted by Frontier's competitive presence.

Virgin America will also focus on freight in the Los Angeles-San Jose del Cabo market. Virgin America has carried freight across its network since its second month of operation. As may be seen in Exhibit VX-120, the volume of Virgin America's freight has increased month-over-month, and Virgin America will work hard to add San Jose del Cabo origin or destination freight to this cargo network.

Perhaps the greatest differentiating factor between Virgin America and other applicants in this proceeding is the high-quality, innovative in-flight experience, that is discussed by CEO David Cush in his testimony. As may be seen in Exhibits VX-108-113, the services offered by Virgin America on its aircraft are simply unmatched – ultra-comfortable seats in first class and the main cabin, twelve shades of mood-lighting, on-board power outlets at passenger seats, a state-of-the-art, in-flight entertainment system, and drinks/food on demand from the seatback computer with a credit card swipe. Indeed, WIRED has described Virgin America's in-flight services as "A multi-million dollar IPOD. That flies."

Finally, aggressive and innovative marketing has been a hallmark of the rollout of Virgin America's service, and Virgin America would utilize these same marketing techniques in promoting its new San Jose del Cabo services. An example, taken from Virgin America's recent advertising campaign, is included in Exhibit VX-126 for illustrative purposes.

**Virgin America Will Have The Most Favorable Impact On
Market Structure And The Level Of Competition In The U.S.-Mexico Market**

The Department quite properly determined in the Los-Angeles-San Jose del Cabo Combination Service Proceeding that the "pivotal" issues in selecting Frontier in that proceeding were its superior new-entrant competition and market structure benefits that improved the overall level of competition with incumbents in the Los Angeles-Mexico and the West Coast-Mexico markets. Selection of Virgin America to replace Frontier in the LAX-SJD market will ensure access to a new entrant with a proven track record of competing head-to-head with the large, legacy carriers. Such a decision will also ensure that Virgin America can continue to grow its presence at Los Angeles and have even greater competitive and market structure impacts on this market for the benefit of the traveling and shipping public.

Today's U.S.-Mexico air travel market is dominated today by legacy carriers. For example, Delta holds authority to serve 14 Mexican points from 15 points in the United States. Continental already holds authority to serve 17 points in Mexico from 12 points in the United States. United holds authority to operate service to seven Mexican points from 6 points in the United States. Alaska holds authority to serve 8 points in Mexico from 7 points in the United States. American (including American Eagle) holds authority to serve 14 points in Mexico from 9 points in the United States. Lastly, US Airways (including America West) holds authority to serve 9 points in Mexico from 13 points in the United States. Exhibit VX-123.

This pattern of domination is particularly acute in the Western portion of the United States, where legacy carriers operate fully 92.5 percent of all weekly Mexican frequencies. Specifically, Continental operates a total of 466 frequencies, Delta has 77 frequencies and United provides 42 frequencies. American and Alaska, the two incumbents in the LAX-SJD market, operate 237 and 144 weekly frequencies, respectively. Exhibit VX-121.

This legacy carrier-dominated pattern of Mexico service developed during an era in which the U.S.-Mexico bilateral agreement limited U.S. carrier service between the U.S. and Mexico in most markets to only two U.S. carriers, with a resulting detrimental effect on both service and fares in these markets. Given these circumstances, the U.S. Government quite properly pushed the Mexican Government to increase the number of U.S. carriers which could provide service in many of these markets from two to three carriers, including the Los-Angeles-San Jose del Cabo market.

The selection of Frontier, a new entrant, low-fare carrier, to be the third carrier in the LAX-SJD market in 2006, was fully consistent with the U.S. Government's pro-competitive objectives in the bilateral process, particularly when the other carriers opposing Frontier were Delta, United and Continental (with its code-share partner, Expressjet, proposing service with regional jets). In this new proceeding to select a replacement carrier for Frontier, the Department can achieve those very same pro-competitive objectives by choosing Virgin America, the only California-based applicant in the proceeding, to provide Los Angeles-San Jose del Cabo service. The reasons that competition will increase and consumers will benefit are as follows:

First, although Virgin America has only been operating for over six months, it already operates a total of 16 scheduled aircraft, serving seven cities, operating 70 daily departures and achieving 13.4 hours of utilization with its aircraft. Exhibit VX-104.

Second, Virgin America has been successfully competing head-to-head against the legacy carriers with its high-quality, low-cost, low-fare service in some of their most important markets, including San Francisco-New York, Los Angeles-New York, San Francisco-Washington, DC, Los Angeles-Washington, DC, San Francisco-Las Vegas, San Francisco-Los Angeles, San Diego-San Francisco, and soon Seattle-Los Angeles.

Third, Virgin America has already established a very strong presence in Los Angeles, serving four of the top 10 Los Angeles markets which account for almost 30% of total domestic demand in this area. Exhibit VX-117.

Fourth, Virgin America's decision to use the San Francisco International Airport (SFO) as its focus airport has caused traffic there to grow dramatically from an average annual growth rate of 2 percent per year to 6.5 percent. This increase in traffic has improved the SFO Airport budget by \$31.8 million in 2008. Exhibit VX-119.

Fifth, Virgin America provides a very high-quality, first-class product offered at very competitive prices which will permit Virgin America to compete effectively against the incumbent carriers in the Los Angeles-San Jose del Cabo market (Frontier, like TED, offered a single-class product).

Sixth, Virgin America's innovative and unique in-flight experience has set the competitive bar at a very high level, and is likely to have a very dramatic impact in the Los Angeles-San Jose del Cabo market, which is, primarily, a leisure market where passengers are looking for quality entertainment and service enroute to/from vacations in San Jose del Cabo.

Finally, as Virgin America has demonstrated since it began service, aggressive marketing is a very important component of its overall business plan, and it can be counted upon to be an important element of Virgin America's efforts to entice more consumers to fly in the LAX-SJD market.

The U.S. Government is to be commended for aggressively pursuing the opening up of the U.S.-Mexico market in 2005, and Virgin America is the perfect new entrant carrier to replace Frontier in the Los Angeles-San Jose del Cabo market to assure that the Department's efforts to loosen the legacy carrier stranglehold on Western U.S.-Mexico service can be successful.

* * *

Virgin America is Fit to Provide Scheduled Foreign Air Transportation

1. Virgin America is working closely with its San Jose FAA office to obtain the necessary authorizations and operations specifications amendments to conduct scheduled foreign air transportation.

2. Virgin America's management and key employees have extensive experience with international airline operations, scheduling, and planning. Overviews of these employees and their experience are set forth herein. To the extent deemed necessary, pursuant to Rule 24(g) Virgin America respectfully requests that the Department take official notice of Virgin America's recent submissions in support of its interstate certificate in Docket OST-2005-23307 as well as other information Virgin America has provided to the Department.

3. Virgin America's proposed LAX-SJD service is "not markedly different in terms of aircraft size or stage length from the carrier's current scheduled interstate operations under its existing certificate authority." See Application of JetBlue Airways Corporation, Notice of Action Taken, March 18, 2004, Docket OST-2004-17265. Virgin America is, therefore, fit, willing, and able to perform this air transportation with aircraft it currently operates on its interstate schedules. Indeed, many of the routes operated by Virgin America in providing interstate service are shorter than the LAX-SJD stage length.

International Air Transportation Experience of
Key Virgin America Employees

C. David Cush – President and CEO

Mr. Cush has over 22 years of experience in the airline industry and became Virgin America's President and CEO in December of 2007. Prior to his employment with Virgin America, Mr. Cush was Senior Vice President of Global Sales at American Airlines. In that capacity, Mr. Cush was responsible for American's world-wide sales. Mr. Cush also held positions as Vice President of American's St. Louis hub and as Vice President of International Planning and Global Alliances. Mr. Cush was also Chief Operating Officer of Aerolineas Argentinas. Mr. Cush's industry experience encompasses all facets of airline operations including finance, sales and marketing, customer service and operations.

Robert Weatherly – Senior Vice President – Flight Operations (FAA designated Director of Operations)

Captain Weatherly has over 30 years experience as a pilot and instructor and holds type ratings for many major transport category aircraft. Captain Weatherly has flown to Mexico and multiple other foreign foreign airports since the 1970's. Indeed, his international experience began as a B-727 Captain and as a check airman qualifying line captains flying on flights to Mexico. Prior to joining Virgin America, Captain Weatherly was Vice President of Flight Operations at Atlas Air where he oversaw world-wide B747 operations.

Thomas Anderson – Senior Vice President – Technical Operations

Mr. Anderson was with JetBlue Airways from 2001-2007. While there, his experience included starting JetBlue's international operations, and he was the Senior Vice-President for Technical Operations and Aircraft Programs.

Frances Fiorillo – Senior Vice President – People and Guest Services

Ms. Fiorillo has almost thirty years' experience in the airline industry. She was Vice President – In Flight and Vice President for Human Resources at Canadian Airlines International. In those roles she was responsible for human resources policies, compensation, and employee relations matters for employees at international stations (including Latin America). Ms. Fiorillo also has extensive experience in overseeing crew operations as well as crew services planning and scheduling for Canadian, U.S. and international operations

David Pflieger – Senior Vice President – Legal & Government Affairs

Mr. Pflieger has over 22 years of experience in the aviation industry. He was Delta's Operations attorney and Director of Flight Safety. In these positions, he had responsibility for domestic and international aviation legal and safety issues to include codeshare flights, safety reviews of foreign carriers, and all operations and customs matters worldwide. Mr. Pflieger was also the Vice President of Operations at Song which operated B757 aircraft to destinations in the U.S. and Puerto Rico. Mr. Pflieger is also an A319/320 Captain and has operated B757/767 aircraft to international destinations in the Caribbean.

Brian Clark – Vice President – Planning & Sales

Mr. Clark has over fourteen years experience in the aviation industry. Prior to joining Virgin America, Mr. Clark was Managing Director – Network Planning at US Airways. In that capacity he was responsible for the US Airway's 280-aircraft mainline network plan, including the Domestic, European, and Caribbean/Latin regions. His international experience includes the addition of nearly two dozen international city pairs or international airports as part of US Airways expansion into Europe, the Caribbean, and Latin America. He was also US Airways' network planning representative to the Star Alliance.

Joseph Houghton – Vice President – Operations Control Center

Captain Houghton was Virgin America's first chief pilot. He has more than 20 years of management and operations experience, and prior to his joining Virgin America Captain Houghton was the assistant chief pilot for US Airways where he managed 725 pilots, including mainline and MetroJet operations, and logged more than 11,000 hours of flight time.

Todd Pawlowski – Vice President – Airports and Guest Services

Mr. Pawlowski has over twenty years' experience in the industry. Prior to joining Virgin America, Mr. Pawlowski was Vice President of Customer Services at Virgin Atlantic for five years where he was responsible for airport operations (including international) and regulatory matters involving Virgin Atlantic's international. Mr. Pawlowski was also Director of Airport Services for Virgin Atlantic.

Rob Bendall – Director - Chief Pilot

Captain Bendall has captain/check airman experience in a number of major transport category aircraft, including captain/check airman experience in MD-83 and DC-10 operations to numerous points in Mexico.

Gary Hall – Director – Safety

Captain Hall held various positions including Director-Safety, Security, and Regulatory Compliance at Atlantic Southeast Airlines from 1992-2007. While there, his experience included starting new service to destinations in Mexico and Canada.

Amy Daniels – Director – Airline Projects

Prior to joining Virgin America, Ms. Daniels worked for Continental Airlines in revenue management and alliance reporting and development. She has considerable experience with the adoption/oversight of codeshare and interline agreements (including with Mexican carriers), mergers, acquisitions, and capacity-buy arrangements.

Tony Goodman – Director – Sales and Distribution

Mr. Goodman was Continental Airline's National Leisure Sales Manager for four years. In that capacity he was responsible for Continental's overall sales/marketing and related

start-up activities to San Jose del Cabo, including negotiating for marketing funding with Mexican tourism officials and marketing San Jose del Cabo inventory to wholesale and vacation package providers.

Adam Green – Director – Network Planning

Mr. Green was JetBlue's Manager of Route Planning for five years. In that capacity he was involved in planning for JetBlue's first international service (Cancun) and he led a cross-departmental team which took JetBlue to its initial international destinations: the Dominican Republic, the Bahamas, Bermuda, and Aruba.

Doreen Lawrence – Director – In-Flight

Ms. Lawrence is responsible for Virgin America's in-flight experience and has 30 years' experience in the industry. Prior to joining Virgin America, Ms. Lawrence was Director of In-Flight Service at JetBlue, where she was responsible for 1800 flight attendants and management staff and domestic policies and procedures. Ms. Lawrence has extensive experience Latin American operations, having been Vice President of Inflight Service for Lan Chile and Operations Manager Latin America for American Airlines.

Joseph Meszaro – Director - Maintenance

Mr. Meszaro performed aircraft technical acceptance checks and testing for Virgin America at Airbus facilities in Toulouse, France and Hamburg, Germany. Prior to his employment with Virgin America, Mr. Meszaro spent almost 20 years with United Air Lines performing, supervising, planning and managing maintenance for international aircraft operations (including ETOPS) around the world. This included provision of on-demand aircraft recovery services to any station in the world.

Timothy Thornton – Director – Airports

In 2002 Mr. Thornton was Director of Frontier Airline's Denver hub and participated in the planning for Frontier's first service to Mexico. Mr. Thornton was previously Director of Customer Service at America West's Phoenix hub where he oversaw international departures to fourteen international points, twelve of which were in Mexico. Mr. Thornton also assisted in the preparation/opening of America West's San Jose del Cabo station.

Mark Vorzimmer – Director – Security

Prior to joining Virgin America Mr. Vorzimmer held positions as manager and director of Continental Airline's corporate security department with responsibility for worldwide security matters, where he ensured Continental's compliance with ICAO, IATA, and TSA security-related obligations. Mr. Vorzimmer has extensive experience with U.S. Customs and Border Protection's "Super Carrier" program and conducting security assessments of high-risk international environments.

Virgin America – A next generation airline

Reinventing U.S. air travel with low fares and an innovative in-flight experience



- Launched Aug. 8, 2007 with rave reviews from customers, press
 - Recipient of early consumer awards -- like Zagat's best in class
- Brand new, Airbus A320-family aircraft
- Base of operations at the ultra-modern, convenient International Terminal at San Francisco International Airport (SFO)
- Aggressive Growth Plan
 - 12 aircraft flying in February 2008
 - 22 flying by August 2008
- Best capitalized U.S. start-up airline ever: \$300MM+ of Investor Capital
- 850+ employees who built airline from ground up

Virgin America's competitive advantage

Starting an airline from a blank sheet of paper

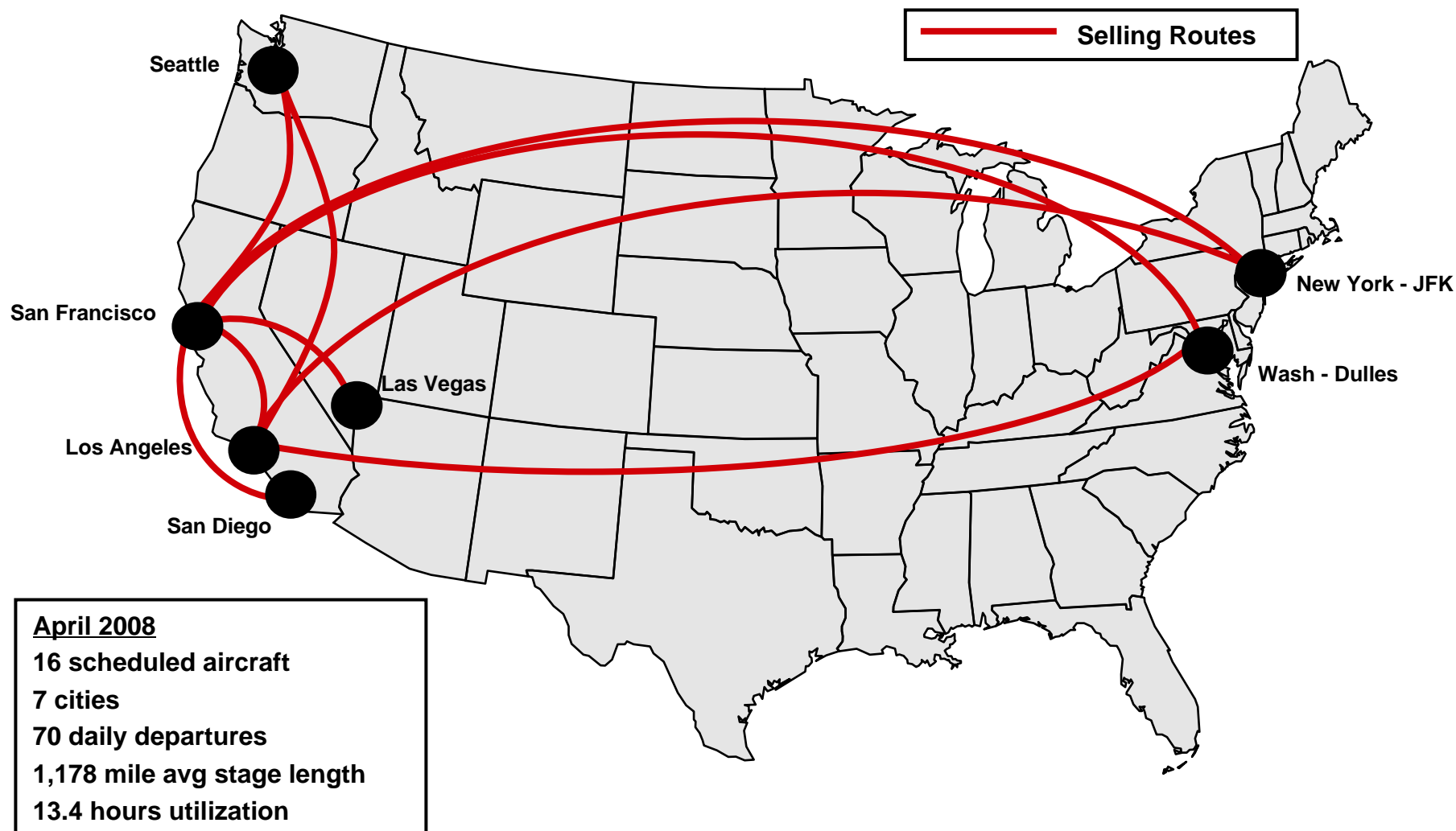


- **It is an advantage to build an airline from the ground up**
 - We created an entrepreneurial, committed and passionate team
 - We created a streamlined, tech-savvy business model
 - We were able to satisfy some pretty basic needs U.S. consumers like, by building an airline that addresses these questions:
 - *what do guests really want?*
 - *why can't a U.S. airline be customer-facing like other industries?*
 - *why can't we answer a demand for attractive prices and topnotch, innovative amenities?*
- **We've been able to do something totally unique in the U.S. market**
 - Before Virgin America there were only two choices: Either a slightly better experience at a higher fare, or lower fares with poor service
 - Virgin America is re-writing the low cost carrier playbook by saying: "let's do both"

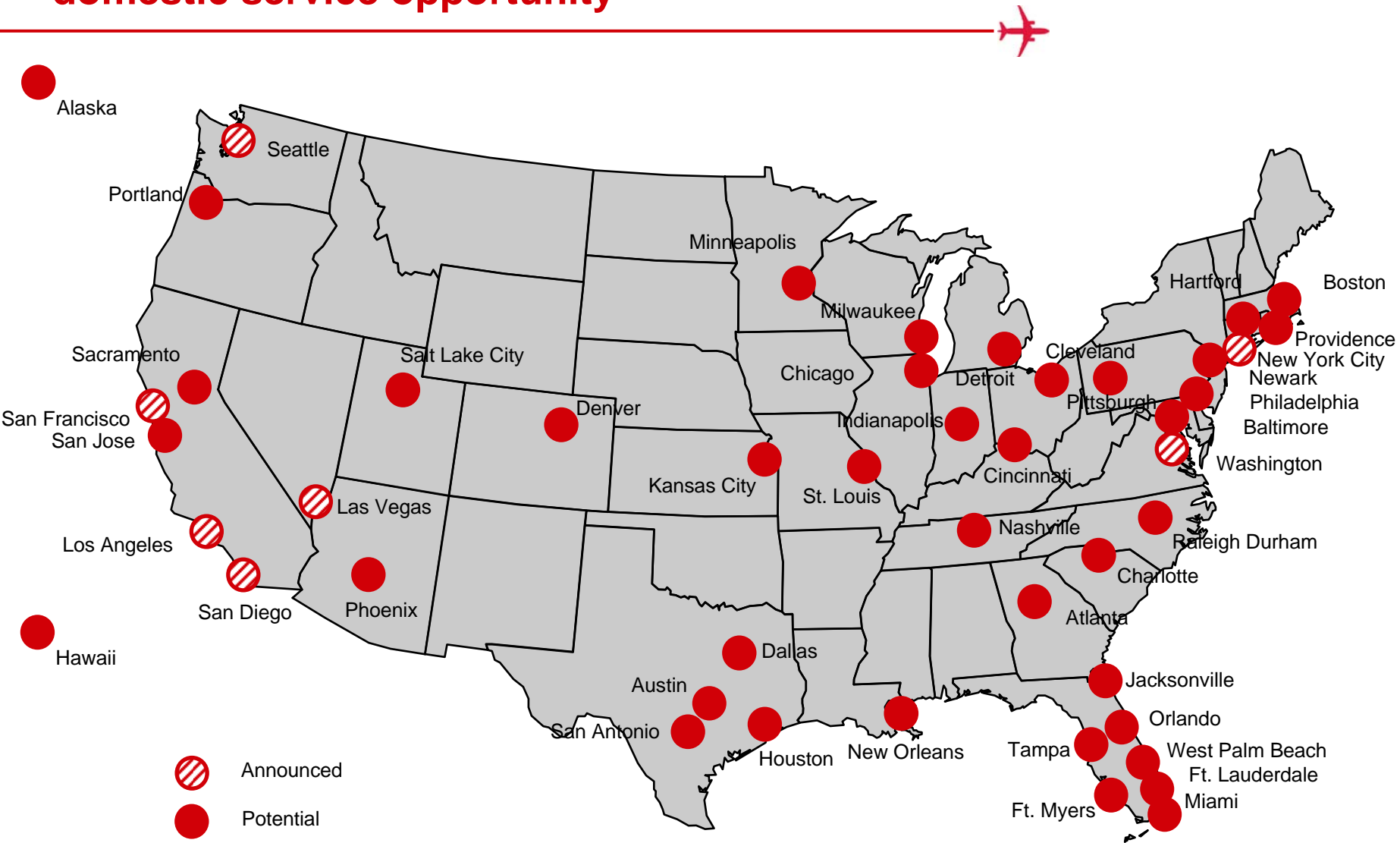
Virgin America's service: Point-to-point large travel markets



- Early '08: SAN-SFO Feb 12; SEA-SFO March 18; SEA-LAX April 8



Virgin America's announced & potential 5-year domestic service opportunity



Consumer benefit of Virgin America SJD service will be immediate and will improve as the airline grows



- Virgin America plans aggressive growth over the next 5 years
- New aircraft will be used to:
 - add new cities and city-pairs
 - build out non-stop market frequency, and
 - create connections to aid flow traffic
- Consumer benefits will only improve as Virgin America grows

Virgin America will offer almost 110,000 seats annually in LAX-SJD



- Online connections will be available to/from Seattle, San Francisco, New York, and Washington, DC

Virgin America Proposed LAX-SJD Schedule & Statistics

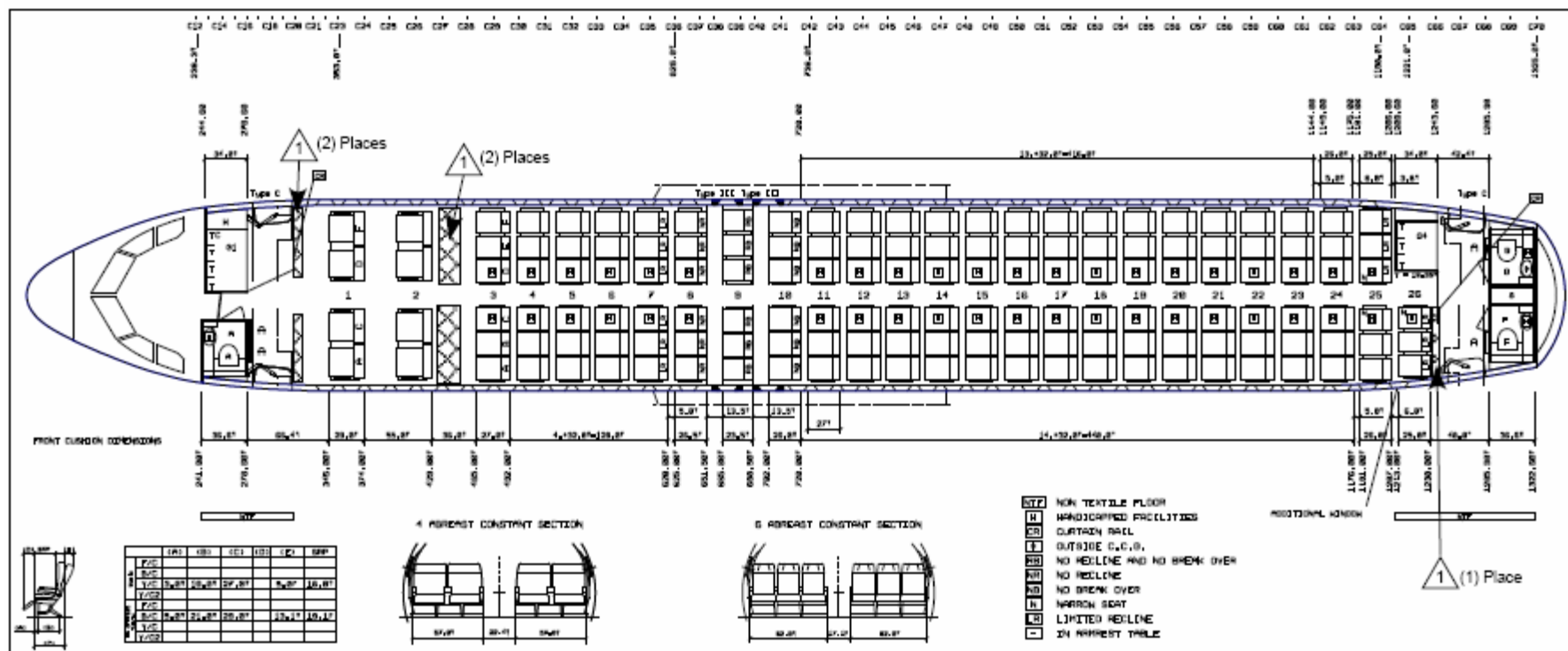
LAX to SJD	Connections via LAX	SJD to LAX
SEA, SFO, JFK, IAD		SEA, SFO, JFK, IAD
56	Flight Number	57
320	Aircraft Type	320
149	Seats	149
Daily	Frequency	Daily
11:10	Departs (local)	15:30
14:30	Arrives (local)	17:00
910	Miles	910
2:20	Block time	2:30
54,385	Seats/year	54,385
43,726	Forecast passengers/year	43,726
590,205	Fuel burn/year (gal)	632,363
49,490,350	ASMs/year	49,490,350
332,150	Plane miles/year	332,150

Notes: All schedules are annual except for the period when the US and Mexico conflict on daylight savings time transitions; Virgin America currently operates from LAX's Terminal Six, which has Customs and Immigrations; Minimum connect time—DI: 35 minutes; ID: 120 minutes

Virgin America aircraft are brand-new two-class 149-seat A320s



- 8 First Class seats with 55" pitch – approximately 40% more pitch than typical domestic first class
- 141 Coach seats with 32" pitch or more

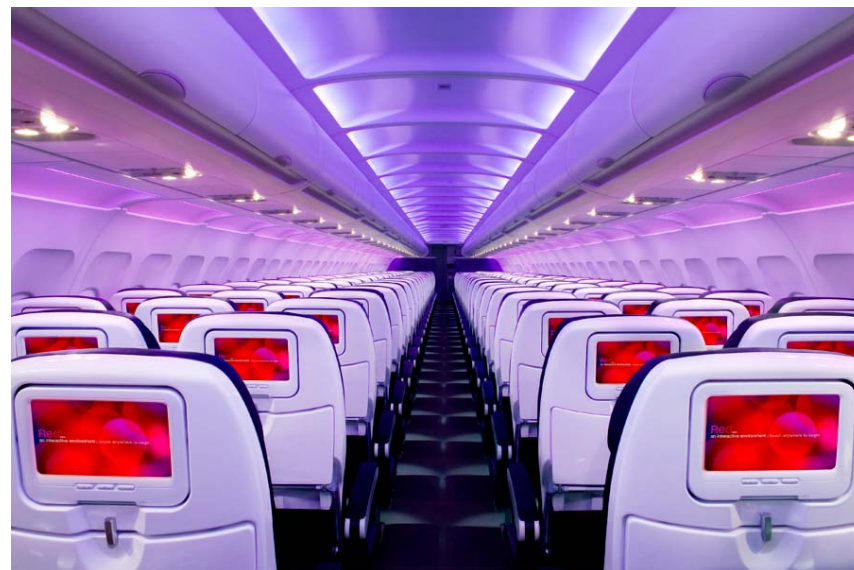


Advantage: A totally high-end, different in-flight experience

Like no planes the U.S. market has seen ~ “A Multi-million Dollar IPOD. That Flies.” -- WIRED



- White leather massage chairs in First Class
 - 55”pitch/165 degree recline
- Main Cabin with adjustable headrests and deeper, more comfortable black leather seats
 - Custom-designed by Recaro
- 12 shades of soothing mood lighting
- Power outlets at passenger seats
- In-flight entertainment system that is a generation ahead of anything at other U.S. airlines
- Only airline with drinks/food on demand from seatback with credit card swipe
- And low everyday fares



Advantage: A totally high-end, different in-flight experience

Like no planes the U.S. market has seen ~ “A Multi-million Dollar IPOD. That Flies.” -- WIRED



- Shown below: Main Cabin Recaro seats

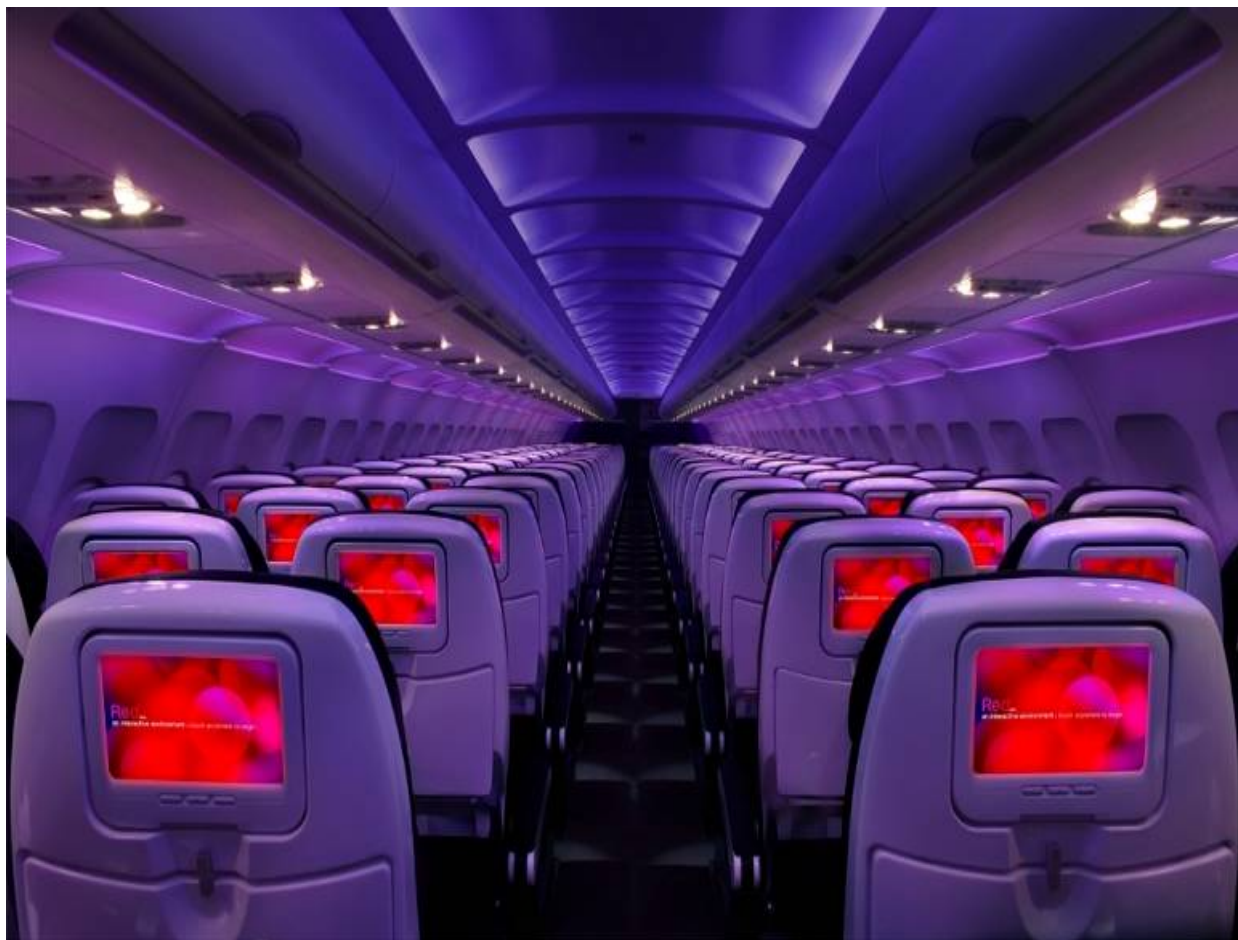


Advantage: A totally high-end, different in-flight experience

Like no planes the U.S. market has seen ~ “A Multi-million Dollar IPOD. That Flies.” -- WIRED



- Shown below: Main Cabin (view from rear of aircraft)



Advantage: A totally high-end, different in-flight experience

Like no planes the U.S. market has seen ~ “A Multi-million Dollar IPOD. That Flies.” -- WIRED



- Shown below: First Class cabin

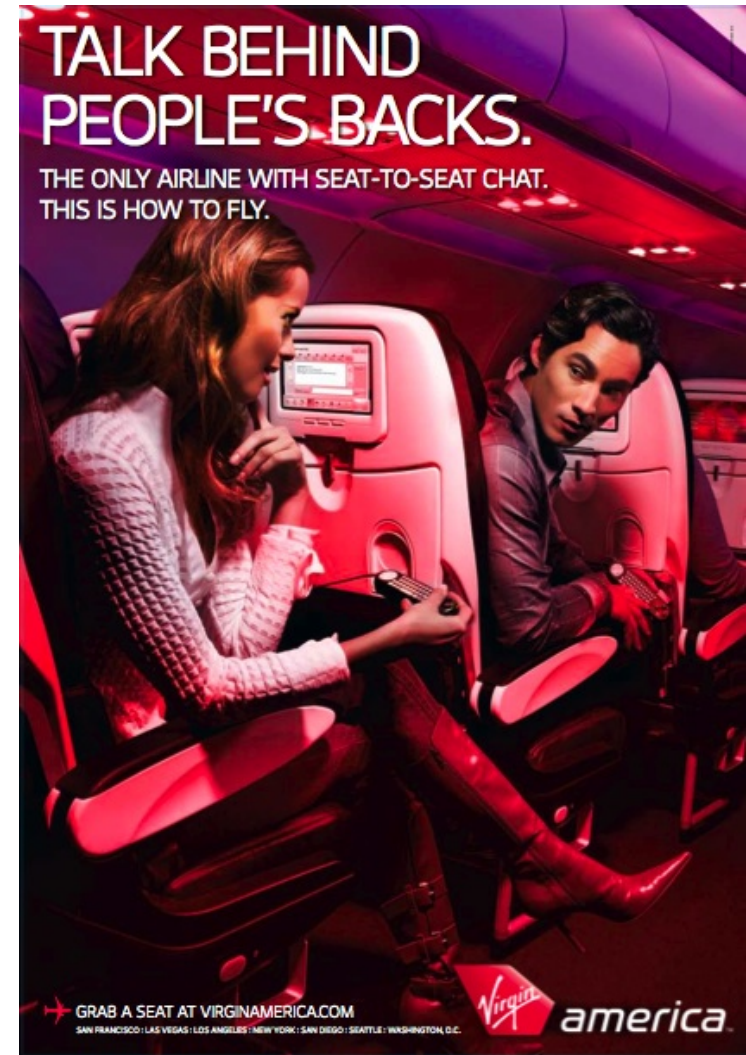


The entertainment junkie's airline

Red In-flight Entertainment system is a generation ahead of anything else in the U.S. market



- Every seat has a 9" video touch-screen (virtual PC)
- 25 on-demand films, including latest releases, Indies and foreign-language films
- 18 channels of live TV within the US
- Ability to create playlist from 3,000 MP3s
- Videogames
- Seat-to-seat "chat" -- instant message with other guests or talk to them in TV chat rooms
- Kids' entertainment section w/parental controls
- Interactive Google Maps with zoom at 8 levels
- WiFi planned in '08 to U.S. routes



Beautiful design and ease-of-use across airline



- Book through award-winning Website, call center, Global Distribution Systems (GDS) (Sabre, Apollo, and Worldspan) and On-line Travel Agents (such as Orbitz)
- Sleek kiosk and web check-in
- Advance seat assignments
- Industry leading loyalty program: eleVAte
- Stylish, friendly, empowered customer-facing teammates greeting guests in front of the counter
- Team Uniforms – smart, hip team look for pilots, flight attendants, and gate agents



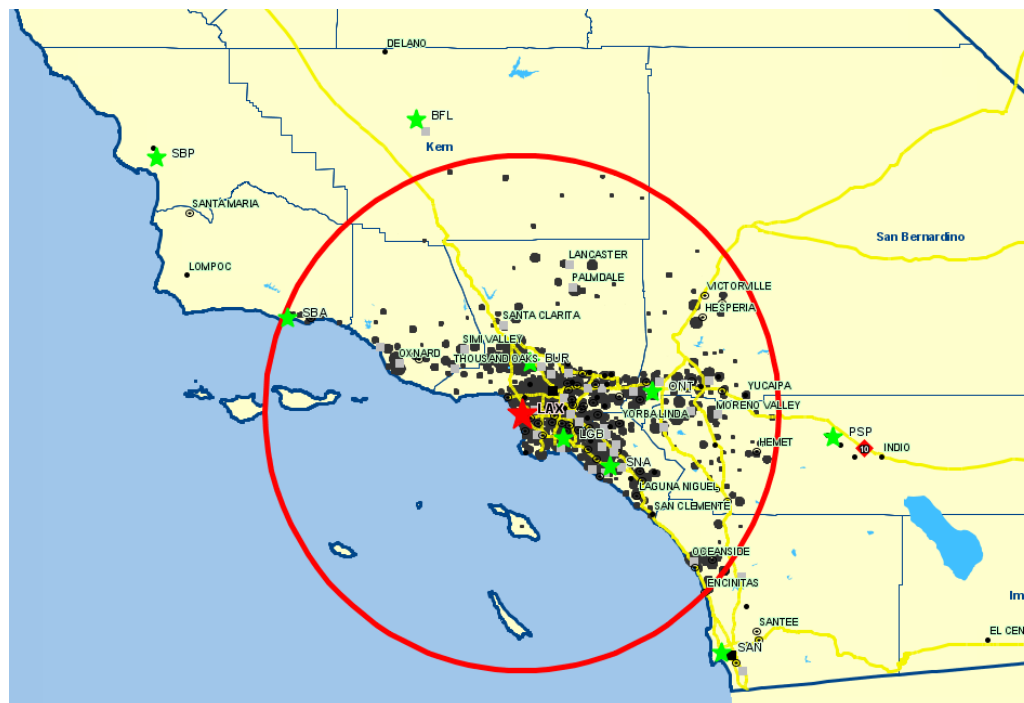
Los Angeles (LAX) – San Jose Del Cabo (SJD) route map



Almost 13 million Los Angeles residents will have access to Virgin America's SJD service



- As the 2nd largest Metropolitan Service Area (MSA) in the country, and the largest MSA west of the Mississippi River, the vast majority of traffic in LAX-SJD will be local traffic
- Virgin America already serves the LA market, and as it grows its fleet, additional connections will come online bringing added consumer benefits beyond LAX



MSA Population Source: Population Division , US Census Bureau, release date 4/5/07

Graphic source: APGDat, www.apgdat.com

Virgin America already serves 4 of the top 10 Los Angeles markets



- Virgin America LAX markets already serve approximately 30% of total LA Basin-area domestic demand:

Top 10 LA Basin Markets

1	San Francisco
2	New York
3	Las Vegas
4	Sacramento
5	Phoenix
6	Chicago
7	Seattle
8	Washington, DC
9	Denver
10	Dallas

Note: Red outline denotes Virgin America service

Source: DOT O&D Survey, YE 3Q07, via APGDat, www.apgdat.com; San Francisco = SFO,SJC,OAK; LA Basin = LAX,SNA,ONT,BUR,LGB; Washington, DC = IAD,DCA,BWI; Boston = BOS,PVD,MHT; Chicago = ORD,MDW; New York = JFK,LGA,EWR; Virgin America LAX-SEA service starts April 2008

Virgin America will lower fares by as much as 45% in LAX-SJD



1-way fares

	<u>Alaska</u>	<u>Frontier</u>	<u>American</u>	<u>Virgin America</u>	<u>Virgin America vs. Other Airlines</u>
Lowest Coach	\$ 134	\$ 134	\$ 134	\$ 129	-4%
Highest Coach	\$ 394	\$ 529	\$ 634	\$ 349	-45%
Lowest First Class	\$ 444	n/a	\$ 444	\$ 399	-10%

Source: OAL fares from Sabre, 2/17/08; Virgin America fares are suggested fares

In just 6 months, Virgin America has already made a dramatic positive impact at SFO



Local

Cheap carriers pay off at SFO

Sasha Vasilyuk, The Examiner

2008-02-09 11:00:00.0

Current rank: Not ranked

S.F. AIRPORT -

The number of passengers and the revenue they bring to San Francisco International Airport has increased dramatically since low-cost airlines such as Virgin America, JetBlue Airways and Southwest Airlines began service out of SFO less than a year ago.

SFO's passenger base of 33.5 million grew by 6.5 percent from June to November, a big increase from the usual 2 percent annual growth, according to SFO's finance director, Ben Kutnick. The airport expects an additional 3.5 million passengers by the summer, a significant 9 percent growth that will add \$31.8 million to SFO's budget, Kutnick said.

Earlier this week, the airport commission approved next year's \$658 million budget, which increased by 5 percent from last year's. SFO spokesman Mike McCarron attributed the growth to the options offered by low-cost airlines.

"People are more likely to buy Virgin than United tickets because prices are more competitive," he said. JetBlue Airways started flying out of SFO in May, followed by Virgin America and Southwest Airlines in August.

McCarron also said more people are taking advantage of the airport's 340 weekly flights to Los Angeles, some of which cost less than \$100 roundtrip.

"With \$4 a gallon, it can be more cost-effective to fly than to drive," he said. SFO is reconstructing its old international terminal, which has been vacant since 2000, to accommodate the expanding service by the three low-cost airlines. Domestic JetBlue and Virgin Airlines flights depart from the new international terminal because of a lack of available gates at the domestic terminal.

SFO hopes to convert the old international terminal into a new part of the domestic terminal by August 2010, adding 14 gates for domestic flights. Demolition of the old terminal is scheduled to begin in the next two months, McCarron said.

As the number of passengers grows at SFO, stores and restaurants are making more money, according to a report submitted this week to the airport commission.

SFO expects profits from concession sales to increase by 5 percent this year, Kutnick said.

svasilyuk@examiner.com

Examiner

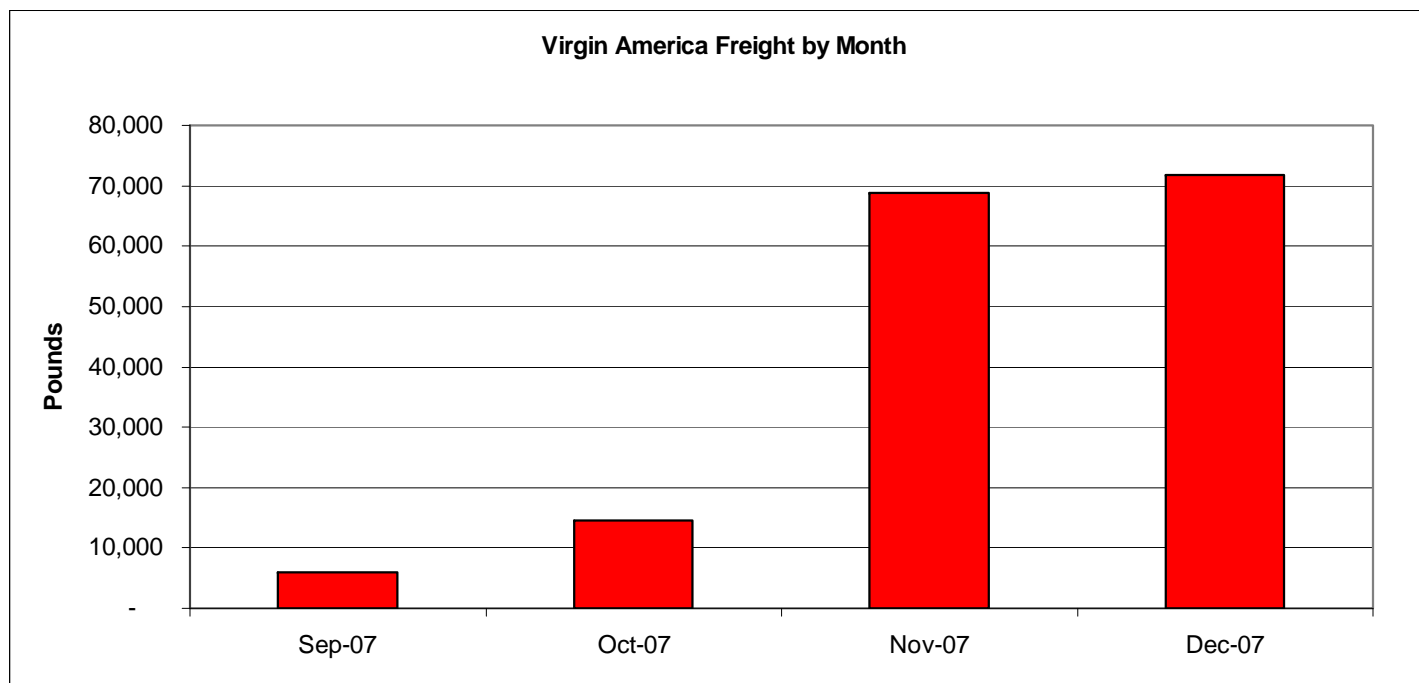
"[SFO] expects an additional 3.5 million passengers by the summer, a significant 9 percent growth that will add \$31.8 million to SFO's budget..."

"People are more likely to buy Virgin [America] than United tickets because prices are more competitive..."

Virgin America has a growing freight business



- Virgin America has carried freight since its second month of operations
 - Volume has increased each month through 2007

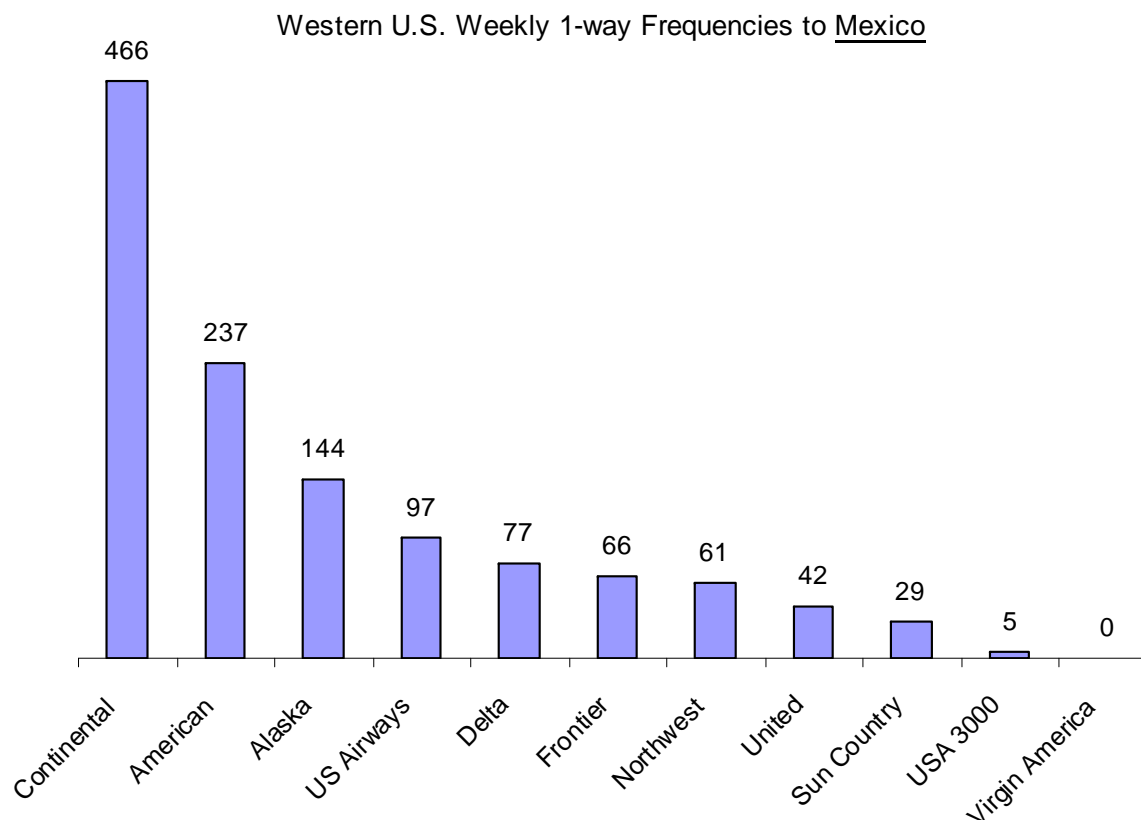


Source: Virgin America T100 submissions

There are Ten U.S. carriers with Service to Mexico from Western U.S. Gateways



- LCC's have only 8.2% of the weekly frequencies to Mexico from Western U.S. gateways



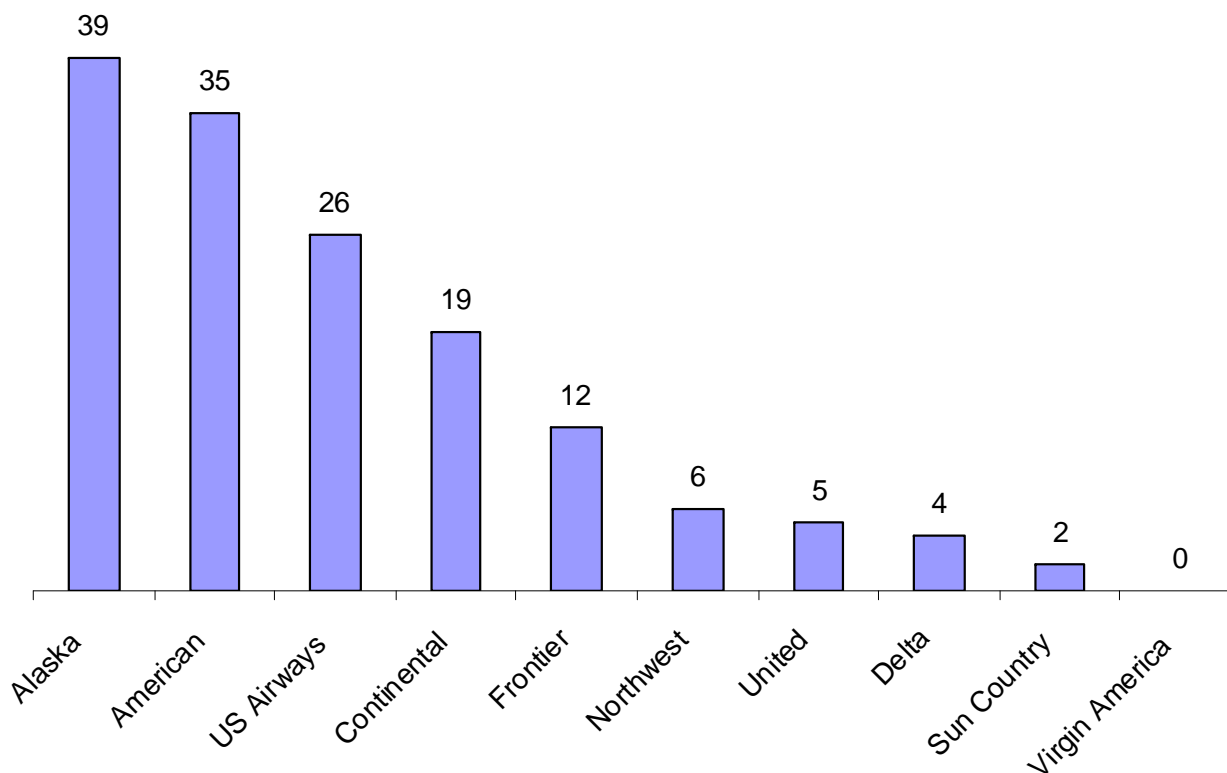
Source: Innovata schedules via apgdat.com; data for February 2008; frequency is weekly 1-way flights; Western U.S. defined as west of the Mississippi; excludes F9 LAX-SJD service

There are nine U.S. carriers with service to SJD from Western U.S. Gateways



- LCC's have only 9.5% of the weekly frequencies to SJD from Western U.S. gateways

Western U.S. Weekly 1-way Frequencies to SJD



Source: Innovata schedules via apgdat.com; data for February 2008; frequency is weekly 1-way flights; Western U.S. defined as west of the Mississippi; excludes F9 LAX-SJD service

The legacy carriers have plenty of U.S. – Mexico authority



- Alaska holds authority to serve 8 points in Mexico from 7 points in the United States
- American holds authority to serve 14 points in Mexico from 9 points in the United States¹
- Continental holds authority to serve 17 points in Mexico from 12 points in the United States
- Delta holds authority to serve 14 points in Mexico from 15 points in the United States
- United holds authority to serve 7 points in Mexico from 6 points in the United States
- US Airways holds authority to serve 9 points in Mexico from 13 points in the United States²

Source: International Route Authority By Country, Office of International Aviation, 11/1/2006

1/ Includes American Eagle

2/ Includes America West

Virgin America awards

After 6 months flying – some major consumer awards



- **Zagat's** 2007 Global Airlines Survey ranked Virgin America # 1 for overall quality in First/Business Class for U.S. carriers and second among all domestic carriers for overall quality in the Main Cabin.
- **SF Chamber's 2007 Excellence in Business -** Economic Development Award for generating innovation and job growth.
- Most popular choice for "new airlines" people want to try -- in **Tripadvisor's 2008 Annual Travel Survey**
- Arthur **Frommer's Extra Mile Award** -- distinguishing the best new travel values in 2007



Virgin America awards

After 6 months flying – some major consumer awards



THE WALL STREET JOURNAL.

“Its debut -- rolled out with the **stylish marketing that accompanies Virgin products** from cola to cellphones to music stores -- comes just as customer satisfaction with the airline industry scrapes rock bottom... **With initial funding of \$128 million, Virgin America is one of the best funded start-up airlines in history.**”



“Virgin America emerges as a **West Coast powerhouse**”



“**Like a Multimillion-Dollar iPod. That Flies...**the planes have clearly been designed by people with a keen sense of design and an appreciation of technology's ability to make people feel comfortable and happy.”



“What’s so special about another airline? Not much. Just spanking new planes, tons of TV and music options, IM capabilities with other passengers (hell-o, 24D), food you can order any time, mood lighting, and outlets at every seat.”

New Virgin America brand campaign

“This is How to Fly”



- Leverage innovation
 - for a better experience during journey
- Connect emotionally
 - via a rich spectrum (make them smile)
- Challenges convention
 - in a hip, provocative and fun way
- Understand consumers
 - what they really want, what ticks them off
- Fight for the consumer
 - in places where they are getting a raw deal

